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SENSITIVE  
SIPDIS

DEPARTMENT FOR EAP, EAP/MTS, INR/EAP, EB/ESC/IEC

E.O. 12958: N/A

TAGS: [ECON](#) [ID](#) [EINV](#) [EPET](#) [ELAB](#) [ENRG](#) [PGOV](#) [ASEC](#)

SUBJECT: EAST JAVA MUDFLOW UPDATE: AS LAPINDO'S POCKETS EMPTY,  
PRESIDENT WARNED OF LOOMING CRISIS

REF: JAKARTA 2096 (FINANCIAL CRISIS IMPACT ON BAKRIE'S BUMI RESOURCES)

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This message is sensitive but unclassified. Please protect accordingly.

¶1. (SBU) Summary: In a November 11 meeting with the Minister of Energy and Mineral Resources, (ESDM), the Sidoarjo Mud Management Agency (BPLS) reported that the global financial crisis has caused a near stoppage of mudflow mitigation efforts. BPLS Operational Vice Head Hardi Prasetyo told the Minister and assembled Department and Bureau Heads that the rainy season flow rates in the Porong River offer a vanishing window of opportunity. Every day that BPLS fails to dispose of mud in the river due to lack of funds, pressure increases on rain-weakened dikes. There has been a 75% reduction in funding from Lapindo Brantas, which is responsible for funding BPLS's mitigation at the mudflow's epicenter. Giving the dikes a one-month failure horizon, Prasetyo conveyed Lapindo's suggestion that the national budget now be used to avoid a disaster. Press reports based on leaks of this and other meetings continue to emerge. Despite pleas from Lapindo, President Yudhoyono reportedly remains unwilling to spend public money to hold up Bakrie's end.  
End Summary

¶2. (SBU) ESDM officials invited visiting U.S. Geological Survey (USGS) Scientist Emeritus Dr. Thomas Casadevall, U.S. Army Corps of Engineers Scientist, Dr. Michael Sharp, and Congen Surabaya Pol-Econ Officer to the Ministry to discuss a USGS report on mudflow chemistry and the role of a U.S. mudflow advisor to work with BPLS (visit reported septel). During the November 11 meeting in Jakarta, BPLS Vice Head Hardi Prasetyo provided the assembled officials with update on operations at the site and reported that Lapindo is currently unable to pay its obligations as defined in Presidential Decree 14/2007 as amended in July 2008. . Lapindo is still owned by Coordinating Minister for Social Welfare Aburizal Bakrie's PT Energi Mega Persada, which is part of the Bakrie Group.

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Could the Global Financial Collapse Bring Down Local Dikes?

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13. (SBU) Prasetyo explained that this financial impasse created additional risks at the site. Prasetyo told Minister Yusgiantoro that BPLS operational funds have been cut by 75% since early October 2008. BPLS's current operational strategy is to pump as much mud as possible into the Porong river year round, but to also store some of the 100,000 cubic meters of average daily mudflow during the 7-8 month dry season in holding ponds adjacent to the epicenter. This strategy does not remove all extruded mud and there is a net gain in the ponds every year. This added weight exacerbates subsidence caused by the weakened subsurface. According to Prasetyo, this method will fail at some point, precisely when has yet to be calculated. Prasetyo and the Deputy of Operations at the site Mr. Soffian Hadi informed the Minister that the dikes could fail in one month under current conditions.

14. (SBU) The ground near the mudflow epicenter is subsiding to the northeast, while the Porong river is due south. Subsidence near the epicenter averages 10 centimeters daily. The sinking ground -- in the shape of a widening inverted cone -- means that mud must be moved up a steepening slope to relieve pressure on earthen dikes protecting nearby villages and infrastructure. Between 200-300 dump trucks of fill must be added to the dikes each day. The lack of funds has cut the number of trucks in half. Of an original 200 employees on site, BPLS has let go 81 and put on hold the planned purchase of seven pumps vital to keeping up with rainy season mudflow operations. Without additional pumps, mud will build up in holding ponds without means of relieving the pressure.

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15. (SBU) After the meeting, Minister Yusgiantoro instructed Prasetyo to draft a letter to President Yudhoyono advising him of the looming crisis at the mudflow site and conveying Lapindo's request that public funds be used for mitigation at the epicenter. November 17 press reports said a similar letter was drafted for the Minister of Public Works, but was withdrawn on November 3 and never delivered.

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Bakrie Must Pay-- At Least For Now  
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16. (SBU) With no legal judgment against the company, the Presidential Decree is still the only legal document that attempts to define responsibility at the site. While compensation for victims is to be paid by a holding company established for the purpose, PT Minarak Lapindo, funds for mitigation at the epicenter must be paid by "PT Lapindo Brantas." There is no mention of specific sanctions for failure to comply with the decree. Nor is there provision for personal liability on the part of owners or legal officers of the company. For now at least, according to November 17 press reports, President Yudhoyono and Minister of Public Works Djoko Kirmanto have rejected the notion that public funds should be used. If the central dikes are breached however, any escaped mud will become the responsibility of the Ministry of Public Works (MPU) according to the Decree. (The MPU is responsible for all earthworks outside the core dike enclosing the

epicenter.)

17. (SBU) Prasetyo closed his presentation by suggesting that the Indonesian public could get stuck paying later and might rather pay sooner to avoid near-term disaster. Minister Yusgiantoro is on record as a critic of Lapindo Brantas in addition to serving on the board of directors for BPLS. The Minister closed the meeting by saying that there was much that was "still concealed" about the financial arrangements for mud mitigation under the presidential decree, and "a great deal people don't know." The Minister added that "this is actually not a technical problem, it is a legal problem."MCCLELLAND